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TENDENCIES IN AMERICAN ECONOMIC THOUGHT

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History is past Politics and Politics are present History—*Freeman*

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XII

TENDENCIES IN AMERICAN ECONOMIC THOUGHT

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TENDENCIES IN AMERICAN ECONOMIC THOUGHT.

I.—Introduction.

To the European, familiar at home with the existence of a class of university men of leisure, it appears anomalous that in the United States—that land of economic progress—so little attention should have been given to the scientific explanation of that progress. The European forgets that the American, overwhelmed with the practical details of this hurried march, has had little time for scientific inquiry or even for cool reflection upon the facts within his view. Much of our economic literature, like Cæsar's Commentaries, has been written on the march and with distinct political aim.

It is true that the Americans have not produced a distinctive system of political economy—true also that their influence upon the development of economic science has not been in the remotest degree comparable to their influence upon the economic life of the world.

An economic literature there has been, however, the result of keen observation and sagacious reflection, which has won general respect for solidity and acuteness. There have been a few economists of original force, like H. C. Carey, F. A. Walker, and Henry George, whose work has commanded the attention of the world and has shaped in some measure the progress of the science. Within the last decade or two an army of young economists have taken the field and are making steady and brave advance. Nowhere to-day is the outlook more hopeful than in the United States for progressive work in the science of political economy.

In the development of political economy in the United

States there are at least two radically different periods. The second period begins about twenty years ago. It is marked profoundly by the influence of German economic thought, chiefly through the return of American students from Germany, to study American economic life partly from a German standpoint, and to teach in our colleges the scientific principles learned abroad. It is marked likewise by the economic revolution wrought out in America during this time. The vast body of free land has become practically exhausted, and the changes introduced into economic life by machinery and steam transportation everywhere have nowhere had greater effect than in the United States. We have lost during this period the most of that economic isolation which made the first century of our national existence unique in the world's history. Under the influence of these new conditions, and of the German economists, we are becoming more like the European countries in the development of our ideas.

This paper treats of the earlier period—the economic thought of the first century of the republic—when individual initiative had free and wide economic opportunity, and the mind of the American economist, touched only by the practical reason of England and the speculative logic of France, was virgin yet from the intellectual ferment of German thought.

Perhaps the most important American economists in respect of originality and force belonging to the ante-German period are Benjamin Franklin, Alexander Hamilton, Daniel Raymond, Frederick List, John Rae, H. C. Carey, F. A. Walker and Henry George. This list is by no means exhaustive, but is comprehensive enough and typical enough to illustrate the tendencies in American economic thought. General Walker and Mr. George, although both living less than a year ago, belong intellectually to the earlier period. There is no evidence that they were ever influenced by the German school of economics. In the writings of all these men we find the inspiration of their original ideas to have

been mainly the economic conditions with which they were familiar in America. In this sense they are all American economists.

In America, more certainly than in Europe, we look for little systematic writing on economic topics before the Revolution of 1776—the date of the Wealth of Nations. Before that time, however, Franklin had written wisely upon the subject of population and had taken active part in the political disputes in the colony of Pennsylvania over the perennial question—paper money. He had also given utterance to well-matured views on wages, on value, on manufactures and on taxation. He appreciated the importance of agriculture in the colonies and was half physiocrat before the rise of the physiocratic school. His statistical calculations and conjectures regarding the rate of growth of population in sparsely settled America, adopted by Adam Smith and subsequently by Malthus, became the basis of the classical doctrine of population.[1]

Economic writing was mainly opportunist everywhere during that period, and American pamphlets form no exception. The relative advantages of free or restricted trade, of agriculture or manufactures, of direct or indirect taxation, of paper or metallic money, were subjects of frequent and lively debate. Upon the whole, however, Franklin stands out as the most considerable and most important economist during the colonial period, and Franklin's views are chiefly the reflection, in a mind broad, clear-eyed and of quick perception, of the economic and political conditions of colonial America. Franklin's philosophical acuteness is present, however, in his economics. Wetzel proves that his views on population included the essential scientific principle of the Malthusian doctrine. The influence of the American environment appears in the fact that the same principle which Malthus, in overcrowded England, made the basis of

[1] See Wetzel, Benjamin Franklin as an Economist, Johns Hopkins University Studies in Historical and Political Science, vol. xiii, 1895.

practical proposals to diminish the rate of growth, Franklin, in sparsely-settled America, made the basis of a policy favoring increase in the population.

This difference between the circumstances in England and in America, it will be seen, has been a powerful cause of different tendencies in economic opinion in the two countries. From this point of view the most interesting topics to consider are Protection, Rent and the law of Diminishing Returns, the Malthusian doctrine of Population, Capital, Wages and the Wages-fund theory, Economic Progress, and the Individual in relation to the State.

The American political economy, so far as it can be regarded as a distinct body of doctrine, is essentially a protest against the universality of the chief doctrines of the classical or English school. The impulse given to economic thought by the historical school has led to the partial abandonment, or the substantial modification, of the Smithian and Ricardian economy. Bagehot and Leslie and, to some extent, previous writers like Jones have pointed out the relativity of the classical system to the economic conditions of England at the close of the 18th century and the beginning of the 19th century. Dissimilar conditions in America, during this period, led independent writers to formulate views more in accord with the actual facts of the economic life of the western continent. One of the most striking illustrations of this is in regard to the Malthusian doctrine of population.

The Malthusians predicate the general truth or absoluteness of the law that the possibilities of increase in the population are greater than the possibilities of increase in subsistence. To make this law true in its original formulation the assumption must be made that the methods of production remain stationary. They do not show that it is impossible for new methods to increase productive capacity faster than the assumed possibility of increase in population. It is conceivable that new inventions in the mechanic arts, new processes in the organization of labor and capital, the ex-

ploitation of new resources may, over long periods, proceed at a rate outrunning the possible growth of population. Once establish this possibility, the absoluteness of the Malthusian law is disproved. This is not only true in the abstract; it is true in a far higher degree of the policy advocated by the Malthusians. At no time during this century, to go no further back, would it have been sound policy for the Americans to attempt to restrict the growth of their numbers. On the contrary, every increase in numbers has brought a more than proportionate increase in productive power and in the facilities for a higher level of life. We have stimulated immigration because the unrestricted natural growth in numbers was not sufficient to secure the industrial organization most conducive to prosperity and progress.

It is here that the premises of Smith would have led to juster conclusions than the reasoning of Malthus. One needs simply to follow out the logical consequences of Smith's ideas concerning division of labor to reach Carey's conclusions that the growth of numbers promotes that "association" of developed individuals which is the main cause of greater productive power. The logic of the facts of American economic life and the reasoning of certain American writers have powerfully aided in forcing a new and less absolute statement of the Malthusian law.

II.—Protection.

Modern protectionism is, both in theory and in practice, largely an American product. It is radically different from the restrictive trade legislation of the Mercantile period. Modern protectionism is the economic policy, not of nascent *nationality*, like the Mercantile doctrine, but of young *imperialism*. It is with the growth of vast federations of states into empires that modern protectionism has developed. Unity of interest, free economic movement between the different states—thus are the separate parts of the empire merged into a single body: a tariff wall of fortification around the imperial boundaries—thus can imperial strength be maintained in the keen rivalry for supremacy.

It was in the United States that this principle first found room for solid growth. The circumstances here were all favorable. The necessity for imperial or federated unity between the different nations or states had been learned in the hard school of the War for Independence. The power, which this unity brought, while overshadowed by the particularist sentiment of the mass of the people, loyal rather to their own states, inflamed the imagination of the great leaders. Washington, Jefferson, Madison, Hamilton and Franklin among others were ambitious to consolidate and perpetuate the union thus effected under stress of war. Experience had taught that a federal customs tariff was necessary to secure a federal revenue. The significance of this federal tariff as a power making for imperial unity was clearly perceived by the leaders. It was grudgingly allowed by the particularists and enthusiastically supported by the federalists. The fatal misfortune of the confederacy—its lack of revenue—became thus the means of giving the great federation of states its strongest consolidating force. Protection as a weapon in the hands of the new empire to ward off the dangerous economic rivalry of European states

and as the means of building up economic self-sufficiency within, while urged by the brilliant leader of the Federalists, Alexander Hamilton, was only haltingly applied until the second war with England had taught the advantages of manufacturing our own goods.

It was a democratic, not a monarchical, empire that we builded because we had learned before 1789 that the greatness of the state was identical with—not the greatness of the ruler—but with the prosperity of the people. So, with old Dr. Quesnay we spoke for the abolition of internal duties. The internal strength of the different parts of an empire must be fostered—its economic life quickened by the freest play of industry. And so, we must have better means of internal communication. Washington urged a federal road across the Alleghanies to bind to the East the rapidly growing middle sections, before they should be tempted to unite their fortunes with foreign Louisiana by the ease of river transportation. It was not all reason, it was in part a subtle instinct of self-preservation, a premonition of future imperial growth which gave us the combination of protection and internal improvement as the policy of the progressive party of the early decades of this century.

Adam Smith had more foresight than many of his followers. Free trade, although to him the absolutely right policy, the one which had the larger interests of all men in view, was in his mind an utopian dream in the present age of the world. It were folly to expect its realization. Our century has proved the solidity of his judgment. In this century one great empire after another has been founded, built up on economic solidarity of interests. Our own federal empire led the way. Frederick the Great brought Germany a long step forward in the path. Napoleon, in reorganizing revolutionary France, attempted it, but the frantic jealousy of England drove him into excesses that made his attempt a fiasco. But Napoleon, rousing the imperial spirit of the German people, pushed forward the work of the great Frederick. It is significant that the most aggressive early

agitator for German imperial union, Frederick List, found one of his first illustrations of the advantages of trade restriction on the imperial frontier, through observing the quickening effects on German manufactures, of Napoleon's continental blockade, which excluded English goods. German imperial union was effected a quarter of a century ago and the imperialists are now seeking by active efforts at colonization to build a yet larger empire. Disunited Italy has been built into a small empire—also with a colonial policy. The English policy has been to extend everywhere her colonial empire. France, through all the dynastic and external troubles of the century, has pushed her possessions in Africa and the East. Russia and the United States have throughout the century steadily enlarged the boundaries of their territories wherever it has been possible. By purchase where possible, by war when necessary, we have seized nearly all the best part of our continent. We have added arctic Alaska. We are looking with hungry eyes on tropic Hawaii and Cuba. We warn Europe and Asia away from both American continents as if we dimly dreamed that one day we must incorporate all America into one union. Russia, likewise, is building a yet vaster empire with steady and relentless persistency.

In all this empire-making one principle differentiates modern politics from the old—the ever clearer recognition that political unity must be built upon unity of economic interest. The Roman empire was held together by military roads. Modern empires are more and more held together by freight-carrying railroads. The English world-power has been largely established and maintained by her navy. It is to the building up of a greater intercolonial merchant marine, by establishing a customs-union between all parts of her dominions, that England is now turning to save her empire from German and American competition. It is noteworthy, moreover, that a pan-American economic union has already been suggested, and that Austrian and German statesmen are predicting the necessity of a *Zollverein* of

continental Europe to match this projected British federal empire on the one hand and united America on the other.

Modern protectionism, the restriction of foreign competition with the encouragement of the freest internal trade, has been the distinctive politico-economic policy of the empire-builders of this century. Protection has come to stay for a century or two yet. National rivalry made mercantilism necessary. Rivalry between great federations makes protection necessary—protection of the modern type, tariff on foreign goods, free trade within.[1]

This modern protectionism is, as has been said, largely the work of Americans. The policy of Alexander Hamilton is the first consistent expression of this doctrine, within my knowledge. The experiment of our federal union along this line was the first, perhaps, at any rate the most conspicuous and most successful example of this empire-building policy. The union of that policy with that of internal improvements, as found in the so-called "American System," gave to Frederick List the definite idea upon which were based his protectionism and his agitation for the *Zollverein* and development of railways in Germany. He came to America a free-trader. Convinced, indeed, he was before of the need of union in customs regulation within the German states. But it was under the influence of his surroundings in the manufacturing and protectionist State of Pennsylvania, in contact with men like Matthew Carey and other members of the Philadelphia Society for the Promotion of National Industry, and with such protectionist writings as Hamilton's Report on Manufactures, and Daniel Raymond's Thoughts on Political Economy,[2] that List learned how potent an instrument protection could be in building up the productive power of a great people.

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[1] It may be said parenthetically here, that if our people ever wish to have Canada brought into the Union, no policy would be half so effective as the policy of free trade with Canada.

[2] See Daniel Raymond, by C. P. Neill, in the present volume of the Johns Hopkins Studies in Historical and Political Science.

It was here before this very Society that List published his first utterances in advocacy of the protectionist system.[1]

In America also List learned more completely how important better means of transportation were in order to strengthen the economic and political bonds of different states, and from here he went back to Germany to advocate the railway system as an agency to unify Germany. Here he saw, what he could not see so well in the old world with its ruts of custom, how new national unity and strength were to be won by the development of industrial wealth—and no less evident was it that this industrial wealth was dependent on the growth of economic interdependence and unity between the different parts of the federal union. List's protectionism is rightly regarded as American in its origin. He was the successor of Hamilton and Raymond. From them and his American surroundings he appears to have taken the essential basis of his system, and upon this basis he elaborated his theory. In the history of American protectionism Rabbeno has rightly placed Frederick List. He represents the succession of American writers on protection, and he was of large influence on subsequent protectionists. The Germans, too, have the right to claim him—the larger right in fact—and through him Americans can feel that they have helped to build the German imperial union.

Two other literary advocates of protection merit notice—John Rae and Henry C. Carey. There seems to be no positive evidence that either of these writers was influenced directly by List. The former in fact had little opportunity of knowing what List had done. His "Statement of Some New Principles on the Subject of Political Economy, exposing the Fallacies of the System of Free Trade, and of some other doctrines maintained in the Wealth of Nations," was published in Boston in 1834. He was a Scotchman, residing in Canada. His project, while in England, had

[1] Outlines of American Political Economy. Philadelphia, 1827. A report was also printed of an address by List at a dinner given to him by the said society.

been a grand one—something like that of the modern sociologist—to write an adequate account of human evolution. He was forced, however, suddenly to exchange "the literary leisure of Europe for the solitude and labors of the Canadian backwoods." He had made a special study of Smith's Wealth of Nations before leaving England and confesses his disappointment at the narrowness of its scope and its erroneous conclusions. In the solitude of his American sojourn he again took up the formerly rejected Smith in order to trace out the connection between the phenomena of wealth "and those general principles of the nature of man and of the world, determining . . . the whole progress of human affairs." This second examination confirmed his former opinion. He then undertook to examine the relations between Great Britain and her colonies, especially Canada, and found it a relation of mutual benefit—contrary to the Smithian theory. He was thus led to make an attack, based upon his American experience, upon the free trade theory of Smith. He speaks of "the effects of the [protective] policy pursued by the legislature of the United States, as affording the best practical illustration hitherto existing of the correctness of some of the principles" he maintains. He has omitted reference to them mainly, however, because he thinks such reference superfluous in America.[1]

Rae's arguments for protection and other legislative aid to young industry are urged in opposition to free trade arguments of Smith. Smith admits, says Rae, that the progress of nations is from agriculture to manufactures, and ultimately to commerce. Rae shows that the change to manufactures is very difficult for the unaided individual in the new country from lack of skill, lack of workmen, lack of capital, disinclination of men to emigrate. The probable loss to the pioneer manufacturers deters individuals from

[1] An excellent account of Rae's theory of capital and interest appears in the Quarterly Journal of Economics for January, 1897, by C. W. Mixter. The article bears the title "A Forerunner of Böhm-Bawerk."

the undertaking. Historically the migration of manufactures has been occasioned either by the forcible driving from one country to another of skilled workmen, through "wars and conquests, tyranny and persecutions, the jealousy and hatred of rival States," or to the necessity of establishing manufactures as a means of national defense when commerce has been interrupted by war. American manufactures have been established, he points out, through both of these agencies. He argues for the peaceable alternative, the active encouragement of the legislature. The effects of the importation of manufacturing skill remain the property of the community. Their first cost may well be borne by the community as a whole.

Smith puts too exclusive stress upon capital as the source of the national wealth, argues Rae. Intelligence, skill, invention are quite as necessary, and the growth of these qualities can be promoted in the people by the legislature to some extent. The importation of a foreign science or art, for example, may stimulate the inventive skill of a people, as Hamilton has urged. The independent productive power of the nation is thus developed, and the shock to the whole economic organization of the country when foreign commerce is stopped by war is greatly lessened. Besides, the importation of foreign manufacturing art has the immediate advantage, particularly in a country abounding in raw materials, of saving the cost of long double transportation, by putting the manufacturing town close to the farm and the mine. Thus Rae argues with the conditions of the new American country continually before him.

Carey's[1] protectionism is based upon many secondary arguments of more or less force. The argument founded upon his fundamental philosophical principle—the greater productive power due to "association," which strengthens special individual aptitudes and at the same time combines

[1] The most convenient reference is to Carey's Principles of Social Science, Philadelphia, 1858, not merely for his protectionist arguments but for his views in general.

more advantageously all these separate forces into a whole—is powerful and convincing. Protection promotes "association" by putting the manufacturing town near the farm, both increasing the population and bringing the population into closer economic relation with each other. Thus are promoted the use of richer soils and other natural resources, the growth of intelligence, the division of labor and the general productive power of the community.

III.—Diminishing Returns. Malthusianism. Rent.

A most noticeable tendency in the economic thought of America has been the denial of the doctrine of diminishing returns in agriculture and the Malthusian law of population. Henry C. Carey represents this tendency most fully, but he remains only one among many writers. The denial of these two fundamental principles of the old-world economics seems to have been ingrained in popular thought. It is customary to dismiss Carey's arguments with a sneer as those of a man ill-trained in scientific method, irascible and dogmatic, moved chiefly by antagonism to England. The fact remains that Carey's two fundamental arguments are based upon the most obvious facts of early American development. These two arguments are that increased association and increased intelligence lead, through the use of better lands and better methods, to increasing returns in agriculture and to a greater per capita production. A growing population within the same territory increases association, promotes industrial differentiation, thus increasing the intelligence and ability of the individual. Increased intelligence in the individual, better organization of individuals through association—these forces result in larger proportionate returns. There never was a time during the period of American growth in which Carey lived when a more rapid growth of population would not have been desirable and that for the very reasons assigned by Carey. The ability of a sparsely settled country as its population increases to make more intelligent use of the land and thus, through better methods of agriculture, to create increasing returns, was patent enough in our early history. The advantage of a rapidly increasing population in promoting division of labor and differentiation of industry was no less apparent.

The United States, during the first three quarters of this century, were proof that a body of economic doctrine in

which the two basic laws were diminishing returns and Malthusianism was essentially incomplete, special and one-sided, not in the least worthy of acceptance as necessary and universally applicable truth.

In America during that period it was not true that agriculture generally was an industry of diminishing returns. In America it was not true that an increasing rate of growth in population meant decrease in per capita supply of food and increase in general misery. If we had had during this time a large body of leisured and intelligent scholars, who had not read Ricardo and Malthus, devoted to the independent study of economic life in America, it is very probable that a system of economics would have appeared in which laws of increasing returns in agriculture and of increasing per capita production with increasing population would have been prominent parts. And such a body of economic doctrine would have been at least as valid as was the system known as the classical political economy. We did not have such a class of scholars, and it was left for Germany to develop that protest against the narrowness and inaccuracy of the English school which has led the way to a more scientific view of economic life. But the facts which made the historical school a necessity were nowhere more prominent than in the United States, and Americans have the satisfaction of knowing that they contributed in some degree the intellectual impulse which gave rise to the historical school. List has confessed that the shaping of his economic system and policy was largely due to the opportunity he enjoyed in the United States of seeing new societies pass from barbarian primitiveness to civilization beneath his eyes. The relativity of economic principles was thus impressed upon his mind more vividly than it would have been in any other part of the world. It was this principle of relativity which List taught with so much power that became one of the bases of the historical system. I have pointed out earlier in this paper the direct influence of American writers on List so far as his doctrine of protection is concerned.

Whatever Carey's faults in method or errors in thought, he is worthy of commendation for his strong and eminently accurate grasp upon the principles of American economic progress. He belongs in reality to the historical school. In spite of some vagaries, which have brought him more than adequate censure, he deserves greater praise than many of the purely negative adherents of that school, because he made a strenuous attempt to construct a positive philosophy of economic and social progress. Carey's influence upon the science is marked, in spite of his deriders. The law of diminishing returns is no longer treated as an absolute law. The proviso is made in stating it that *under given conditions* as to the arts of cultivation, skill in organization, intelligence in conduct of agriculture, etc., proportionate returns decrease with increase of capital and labor applied. What Carey urged was that more intelligent methods, etc., led to increasing returns. The facts were that in America better methods were continually adopted, either better machinery, or better draining, or the selection of better soils, or better combination of products, with the result that the general law of American agriculture was increasing returns.

The attitude of many American writers toward the Ricardian rent doctrine is well brought out in the following quotations from Phillips.[1] "It will be unnecessary to occupy ourselves long with the somewhat metaphysical and now almost exploded theory, which has had a temporary popularity in Great Britain, and occupies great space in some of the economical treatises, especially that of Mr. Ricardo, where it is very formally, or as the London Quarterly Review says, 'pompously,' announced as a grand discovery in political economy." After a clear statement of the Ricardian theory Phillips proceeds: "This theory brings with it too many inadmissible consequences. . . . It proves that,

[1] A Manual of Political Economy, with particular reference to the Institutions, Resources and Conditions of the United States, by Willard Phillips. Boston, 1828.

after rents have once accrued in a community, every extension of wheat cultivation is detrimental to the national prosperity. It proves also that if all the lands are of equal fertility, rents will never accrue. This theory is laid down in general terms as if it would apply to any country, whereas we know quite well that a much greater quantity of wheat could be produced in the United States without any increase of the expense per bushel in the production, etc."

The American critics of the classical rent doctrine saw that in some way it did not, as stated, seem to apply to American conditions, and they were led to repudiate the entire theory instead of seeking a restatement of an essentially true principle. The prevalence of proprietorship in the lands by the farmers themselves in America tended to obscure the whole doctrine of rent.

IV.—Capital.

One remarkable tendency characterizes American writers who have observed facts for themselves, a conception of capital very different from that of the classical school. With the latter the typical form of capital was food, a fund in the employer's hands which furnished subsistence to the laborers during the period of production. When capital was generalized it was often the banking capital which furnished the type. But capital as an instrument of production was the subsistence of the living producer. In American economics, on the other hand, the typical form of capital is machinery, instruments; not the *saved* stock of goods appropriated to future consumption, but a constructive provision for the future, an organization of productive forces designed to yield consumer's goods in the future.

Capital is defined by Raymond as the "instrument in the hands of men" in producing wealth. It is not the source of wealth; it does not set industry in motion; it is merely the tool of labor. The typical forms of capital are the steam-engine, the spinning-jenny, the spade, the wheel, money, "by which the merchant is enabled to exchange commodities," ships and land.

Rae regards capital as consisting of "instruments" fitted to supply future wants, while the definition by Carey runs as follows: "the instrument by means of which that mastery [over nature which constitutes wealth] is acquired." The growth of capital is not due, as Smith would have it, to "parsimony," but to the economy of human effort resulting from diversity of employments.

The popular thought and speech came to regard the machine, that instrument which abridged labor by making more skillful use of natural forces, as the typical form of capital. It was the form of capital which gave the American his power. This change of emphasis from food, as the

type of capital in the older economic writing, to the machine as the typical form was characteristic of the changed method of industry in which machinery was displacing labor, or rather setting the laborer to work with a machine. The American characteristically did not like to regard himself as acquiring capital by the passive process of *saving*, but rather by the active process of constructing a better instrument, devising a better method. The power of capital was not in subsisting labor, but in increasing the productive power of labor.

Closely associated with this view is the concept of national wealth which runs through the writings of Raymond, List, Rae and Carey. As Raymond puts it, national wealth is "a capacity for acquiring the necessaries and comforts of life." List's economic system is based upon the same concept. Rae argues that nations do not "acquire" but must "create" wealth, and Carey's view is of productive power as the true wealth. Not accumulated stocks merely confer wealth, but the power of securing a large income of consumable goods. Wealth is a flow of income—not a fund. Capital is not a stock of accumulated goods, but an instrument which can produce a future continuing supply.

V.—Wages and the Wages-Fund.

Closely associated with the idea of capital as instrumental wealth in the hands of labor was a repudiation of the wages-fund theory. The wages-fund theory, at least in its ordinary form, was fitted to survive neither in the frontier economy of the North nor the slave economy of the South. The Northern laborer had always free land accessible. He needed only a few hundred dollars in order to become an independent farmer, and this capital was needed mainly for agricultural implements and stock. The profits of agricultural undertaking were the measure of wages. Only in a few manufacturing centers did any phenomenon like the visible dependence of the mass of laborers on accumulated capital become prominent. Even there the relation between individual efficiency and wages was so clear that one wonders how intelligent college professors could have taught the wages-fund theory even if they read only the English classics. The point of view was shifted from the capitalist-employer of the English Political Economy to the laborer himself. Not the weight of accumulated capital was the important thing in the system, but the degree of intelligence and skill in the individual. He was a wages-earner only temporarily, while he accumulated the small capital necessary to enable him to become industrially independent. The amount of his wages, and hence of the capital which he would be able to accumulate, depended thus primarily upon his own perseverance, skill and intelligence. No fact was plainer than that the one requisite factor in the production of wealth in the United States was the personal ability of the individual. Thus, instead of the laborer being dependent on the amount of capital already accumulated, it was seen that the amount of capital depended on the intelligence of the laborer. Inasmuch as the wages-fund theory deals with free and competing laborers, it had no real application in the slave States.

The most effective attacks on the wages-fund theory in America were by General Walker[1] and Henry George.[2] The keynote of their opinion is that the individual efficiency of the laborer determines the amount of wages, that the product of labor goes as the reward to labor under fair and free competition.

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[1] Wages. New York, 1877.
[2] Progress and Poverty. New York, 1879.

VI.—Economic Progress.

The generally favorable economic conditions, an enterprising, intelligent, versatile and self-respecting population, unlimited land capable of producing paying crops with light tillage, the mineral resources, the political freedom, the powerful influence of the church as an education in morality, in self-government, in the maintenance of high ideals and in general intelligence, the freedom from war and dangers of war—these and other influences made economic progress so easy, so natural and so inevitable, that Americans generally looked upon progress as the normal law of economic life. The dismal pessimism of the English economists, conceived during the Napoleonic era, had no place in this land, leaping by great bounds toward national wealth and power. The American school of political economy must perforce teach the advantages of growing population as well as growing capital, for increased numbers brought larger capital, change from old and ill-paying methods of agriculture and manufacture to new methods, and the invention of new and better machines; these were the occurrences of every day, and they removed into an indefinitely remote future the fear of a retrograde movement or a stationary condition. America had created a new economic world.

If it be maintained by sober critics of this American optimism that it shows crass ignorance of history to maintain that its doctrines of indefinite progress are capable of general application, two replies are possible. The first is that throughout the period of historic records so much new land has lain unappropriated and unused, so little of the now known economic resources in materials and in methods and appliances of adaptation have been exploited, that it always would have been possible for men to labor with increasing returns if they had applied the requisite intelli-

gence and had lived under the proper social order. The difficulty has always been, not a lack of natural resources, but a lack of right political regulation, and especially of economic intelligence. The real teaching of the classical economy was not merely the existence of the law of diminishing returns in agriculture and in economic effort as a whole, but the dominance of that law in fact, so that increasing population meant increasing misery. The American doctrine was the dominance of the law of increasing returns. Now, it is true that the real explanation of decreasing returns historically has been the lack of intelligence in discovery, in new methods and appliances and in organization of productive resources. At no time has the menace to social improvement been the mere increase in the numbers of the people as compared with the world's resources; it has been rather in the lack of the disposition and intelligence to make use of these resources.

The other reply in defense of the American economic doctrine is that American economic development during this century has been subject to increasing returns, has shown a different progress in the use of soils of varying fertility, has exhibited a period in which the increase of the population at its highest rate, aided by unrestricted immigration, has not brought men fast enough into the country to make the best use of its resources. The conclusion necessarily, then, is that the dominance of the law of decreasing returns is not absolute, that the Malthusian principle of population is not universally of importance, but is false as a practical guide under certain conditions. This demonstrates the relativity of economic theory, disproves the perpetualism and universality of the English system, and in these particulars does imperfectly but incontrovertibly what the great writers of the German historical school accomplished.

This similarity in tendency between American and German economic thought rests upon a certain well-marked resemblance in many features between the economic condition of the two countries during this period. Both

were agricultural countries; both found in the Napoleonic wars a stimulus to manufactures through the exclusion of English goods; both needed the rapid increase of railroads throughout the different states to promote economic and political unity, and both found in a combination of internal free trade with imperial protection a powerful stimulus to manufacturing and commercial development.

VII.—The Individual in Relation to the State.

Economic opportunity—free and equal to all—is the principle dearest to the American. This was the basis of that philosophy of freedom and equality which governed our politics in the Revolutionary time. Political equality was really one phase of that passion for economic freedom which was almost universal. And it was the fact of economic freedom, and of relatively equal economic opportunity, which gave our democracy its power. It is this freedom and equality of economic opportunity which has given our country its expansion and its internal growth—which has compelled emancipation of the slaves, and built up that general high degree of comfort throughout the country.

It was not so much that French Revolutionary philosophy moulded our thought—it was rather the actual experience by Americans of substantial equality and freedom in their industrial opportunities which determined its character. This actual experience made them adopt in part the French philosophy. We must not deceive ourselves. The same democratic passion is dominant in the United States to-day. We believe still that each man should work out his own economic salvation, that he should receive the full value of his contribution toward the new wealth created, that no classes under peculiar favor should be allowed undue economic power. We believe that each man should be allowed to cultivate his powers, to educate his children and advance his fortune to the utmost. And to this end the American still believes that equal and free economic opportunity is necessary. Nothing has happened to change this fundamental philosophy of our people. It is instinctively felt that it is this which has made us powerful.

While our country was undeveloped and sparsely settled this economic creed meant a doctrine of political *laissez faire*. Opportunity is of itself free if the government keeps its hands off.

Now conditions have changed. The entire country has been practically occupied and made accessible to development. Further, the general industrial revolution has wrought its work here as well as elsewhere—steam and electricity have transformed all methods of production and thrown our products into the general market of the world. Under such circumstances unrestricted competition leads inevitably to combination. Nowhere in the world has the tendency to great industrial combinations shown such vitality as in the United States. If the masses of the American people ever become convinced that the only way to preserve equality and freedom of economic opportunity is through the public assumption of the industries now managed by the "trusts," no country in the world will swing into state control with greater rapidity and decision. The logical outcome of the extreme individualistic philosophy in which the American republic was conceived is state control of industry—as the means of defending the individual against the aggression of overgrown combination. Some middle ground must be found if we would save America from Socialism.

VIII.—Influences Shaping American Thought.

The most powerful influence shaping early American thought in economic matters was undoubtedly the peculiar economic conditions of the country.

1. The character of the population was not the least of these conditions. While actually made up of many nationalities, the population was yet overwhelmingly British in numbers, and dominated by English ideas of law and industrial development. They belonged then to the most aggressive and pertinacious race of pioneers in the history of the world, and one, moreover, gifted with a passion for independence in political and economic matters, capable of individual initiative, but hating anarchy. The Northern settlers were seamen, handicraftsmen, small farmers and merchants, with some admixture of professional men. They brought with them all the *personnel* of a varied and complete economic civilization, and soon made it evident, in spite of the necessity for the general reliance upon agriculture, that they were capable of industrial independence. Manufactures and commerce were to flourish side by side with agriculture. In the South the population, while overwhelmingly in point of numbers belonging to the class of "poor whites," was yet controlled by the able minority of landed proprietors. A remarkable development of household manufactures took place so far as the ruder necessities of clothing were concerned, but the whole economy was built upon the necessity to maintain the aristocratic organization. If the mass of poorer whites in the South had been man for man the equal of the settlers in New England or the Middle States, it is probable that home manufactures and a lively internal trade would have grown up in the midst of the plantation system. As it was, the presence of slavery, the dominance of the aristocratic class, the overweening importance of tobacco and

cotton as export crops, and the enterprise of "Yankee" merchants in pushing their wares into Southern markets, prevented the industrial emancipation of the poorer portion of the Southern whites. Ernst von Halle[1] has shown how this resulted eventually in the downfall of the Southern system when North and South were driven to measure their strength with each other.

It thus naturally resulted from the character of the people that in the North generally the movement of thought was in favor of the building up of manufactures and a large internal commerce, of achieving a general industrial completeness and self-sufficiency, while at the South the necessity for the dominance of the great planters prevented the growth of a similar general sentiment there.

2. The isolation of America was another powerful factor. This isolation made it advantageous to develop home manufactures, thereby saving the cost of the long transportation of raw materials to Europe and the return of manufactured goods. This was different again in the South after the chief reliance was placed upon the cotton crop. They could not manufacture and they found it cheaper to buy English goods. But in all the protective literature in America, one of the most obvious assumptions underlying the arguments is that the cost of transportation is the great waste in production. If that could be reduced the nation would be more prosperous.

3. The newness and wild condition of the country was also a powerful fact impressing the imagination of Americans. Much of the English system of political economy is based upon phenomena in countries industrially old. In America different conditions compel different explanations. It is upon this fact that the opposition to the Ricardian presentation of the rent theory is based. As America grew older the progress was in reality to better paying soils and

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[1] Baumwoll-Production und Pflanzungwirthschaft in den Nord-Amerikanischen Südstaaten. Theil I. Die Sclavenzeit. Leipzig, 1897.

better paying uses of labor and capital on the old soils. Increasing returns, not decreasing returns, was the normal law of agriculture.

4. Another fact was the sparse population. The manufacturer needed larger population that labor might be cheaper, and the advantages of better adjustment and organization with increasing population were evident. The necessity for a larger home market, for manufacturing towns growing up in agricultural districts—every line of work pointed to increasing comfort for all with increasing population. The sparse population has also given strength to the emphasis placed upon association as an economic advantage.

5. Versatility of the American. This was one of the necessities of the sparse population and the unlimited economic opportunity. Specialization could not be carried far. Hence a premium was put upon intelligence. The dominant element in determining each man's reward seemed to be his ability. Out of this grew the American opposition to the wages-fund, and the explanation of wages as the product of the man's own labor.

6. Scarcity of capital and labor. This made managing skill of the highest importance. A class of undertakers thus was evolved who became unsurpassed as bold projectors and successful organizers. This scarcity likewise stimulated mechanical invention, led to the recognition by some writers of invention as a co-ordinate factor in production with capital and labor, and strengthened the tendency to regard machines as the typical form of capital.

7. Scarcity of money. This was a powerful factor in shaping American opinion upon the monetary question. Throughout the entire country in colonial days, and in many large sections of the country during our whole history, we have been on the verge of exchange by barter. This undoubted need for better facilities for exchange has kept alive always a strong party in favor of increase of the currency. This opinion has taken the form of a popu-

lar agitation for government paper money, for unrestricted issues of bank-notes, and lastly, for the free coinage of silver. It has always been a widely-spread theory because there have always been large sections of the country where there were inadequate facilities for exchange. In the days before banking there was a dearth of coin. Since the banks have taught us to use credit instruments as the common medium of exchange, the issue function being restricted necessarily to commercial banks, agricultural communities have suffered. England has been comparatively free from this trouble because English agriculture has ceased to be of great importance, and her banking system suits well her business as a commercial and manufacturing nation.

8. The system of land ownership—small holdings with title in fee, easy and cheap transfer—has made of land in this country a commercial property. It is generally regarded as a form of capital, not differing essentially from houses or ships, and thus not requiring a special place in scientific exposition. Returns on land are assimilated to interest on the capital invested. A general distrust of the whole elaborate rent doctrine of European economists thus exists in American thought. This has been strengthened by the fact that cultivators of the soil for the most part have owned their farms, and thus the necessity for distinguishing between capital put into the land and into buildings or implements has not been apparent. In striking confirmation of this view is the fact that when American economists became convinced that, whatever else might be criticised away in the classical form of the rent doctrine, the differential principle remained intact, they began to generalize the application of this principle and to apply it to the undertaker's skill, to labor, and to other forms of capital than land.

A second powerful influence in determining American economic thought has been the French individualistic philosophy. It might perhaps better be called the English individualistic philosophy, for it was the direct influence of

Locke, more than of the French writers, which is seen in the Declaration of Independence. But later, at any rate, the ideas took the French form of statement, and the French idealism was better suited to the national temperament of the American than was the English more sober speech. Even here American conditions became the controlling force. Equality—approximate equality—was imposed by the very conditions of life. It was this which made the French philosophy of natural equality so convincing. A new, fertile and boundless country, social institutions largely unformed, a population individualistic by historic extraction and the necessity of daily life—under such circumstances French democratic ideals easily became the gospel. As an industrial philosophy the chief doctrines were liberty as the essential condition of economic progress, equality of economic opportunity as a natural right, individual efficiency as the creating force and just measure of private wealth.

A protective policy, state industrial activity, may seem to contradict this. Not so, however, in a really democratic state. There the people themselves are the government, and what the government does is the act of the people. What is for the general good may safely be done by a democratic government. This would appear to be an unreasoned assumption lying at the basis of general opinion. Protection to aid particular classes—that is the undemocratic thing.

In line with the general individualistic movement, the influence of the Physiocrats and of Adam Smith is easily traced upon the thought of several of the great political leaders.

IX.—Influence of American Economic Thought.

The chief reason for our failure to make large contributions to economic science is the same reason which explains the meagreness of our contribution to general science, viz., the all-absorbing problem of making use of the advantages within our grasp. Within a century we have been compelled to work out several most difficult problems: how to unite in a solid empire many vigorous, large and discordant nationalities; how to stretch this empire over the adjacent territories, so as to remove dangerous enemies; how to get rid of slavery without disrupting the Union; how to make our general education keep pace with our growth in numbers and with the advance of science; how, with the rapidly shifting forms of industrial organization, to maintain purity of government and social order; how to govern an empire without an emperor; how to push forward material civilization without going backwards in intellectual and moral civilization; how to stimulate invention so as to win wealth for all, with inadequate labor and capital. We have not had a class of educated men with leisure and wealth enough to study for the sake of study. The lack has been, not the right quality and power of mind, but the lack of opportunity for its development.

It is easy to explain why our jurists have been greater than our economists. Law is an ancient science, and one to which Americans were forced by the circumstances of their development. It was necessary in effecting political union and in establishing a liberal constitution that the principles of private and constitutional law should be well studied. Our earlier statesmen were, for the most part, trained in legal science, and could hold their own with their brethren in England. The constitutional and political questions were kept to the front by the slavery dispute, and the economic and social obscured by this issue. It was

practically impossible before the overthrow of slavery that the deeper problems of economic life should come to the fore. In the one line of economic policy which was continually forced upon our attention—the question of the tariff—we have in reality furnished the world with the theory of protection.

Hamilton, Matthew Carey, Hezekiah Niles, and Daniel Raymond represent the earlier development in this country of the economic philosophy at the basis of the theory of protection. Smith, in treating of the wealth of nations, lays great stress upon the accumulation of capital through parsimony, because this accumulated stock, saved from present destruction, ensures a larger future wealth in the hands of individuals, and the wealth of individuals is the wealth of the state. These protectionist writers, in urging national encouragement to manufactures, were quite as practical as Smith, and more philosophical. Wealth is not so much accumulated stocks of goods, they argue, as the power of producing large income. The surest provision for the future wealth of a nation is an increase in this capacity to produce. The accumulation of values is, after all, only for the near future, but the firm establishment of manufacturing towns is a permanent provision for a larger and ever larger power of production in the remote future. If to provide for the near future is wise in the individual, to provide for the remote future as well is wise for the nation. The promotion of large wealth to the individuals of the present generation is not identical with the development of large permanent productive capacity in the nation, which does not die with this generation. Large accumulations of stock for foreign trade may be swept away by war. Manufacturing power makes the nation strong and independent in war. Our commerce was swept from the seas by war; it was the stimulated manufactures which gave us independent strength.

Smith again, showing the advantages of division of labor, the economies resulting, the more rapid accumulation of

wealth, had argued that these advantages were limited by the extent of the market—that therefore a large foreign market was necessary and to that end free trade was conducive. The American protectionists answered, the large market can be developed at home by the establishment of manufactures near the farms, and thus a new economy effected by saving the cost of transportation.

Smith's argument for free trade assumes that all mankind are friendly and homogeneous. The fact is, say the protectionists, that men live as parts in separate political unities called nations. These national structures must have vigorous life or all the parts will suffer. Manufactures are an important functional part of the independent national structure. These functional organs, when undeveloped, need special care and sustenance to make them grow to vigor. Every part of the national structure gains in the end by giving up a part of its present sustenance to develop the manufacturing branch of the body. This line of reasoning, as we have seen, was taken up by List and developed into a system which made protection to manufactures a necessary policy during a certain stage of national growth. Through List thus protectionism became a doctrine widely believed in and followed by continental Europe. It has remained in America as the really dominant theory of national growth, and to-day may be regarded as our settled policy for an indefinite future. Even England, as has been said, appears nearly ready to swing into line as a protectionist empire.

The claims of Hamilton as an economist of great and wide-reaching influence cannot be successfully denied. He is more than any other single man the originator of modern protectionism in America and in Europe.

H. C. Carey's influence has been permanent, deep and lasting, mainly in regard to the doctrines of rent, of diminishing returns, and of the growth of population. The real extent of that influence has been obscured by the failure of the most of his other teachings. He was cursed with a

fatal diffuseness of language and an uncontrolled bent toward "damnable iteration." His real argument is obscured thereby—how the intelligence of man, growing with increase of association, opens out continually new resources of better soil, of richer natural wealth, of better machinery or methods of work, so that it is possible to keep the rate of increase in production ahead of the possibilities of growth of population. If this be accepted, then Malthusianism is no longer an absolute principle, nor is the law of diminishing returns; the statement of the rent principle must be modified and general progress may be consistent with growth of population. That Carey was extreme, dogmatic and one-sided is true. But he showed the possibility and the actual existence of an economic life which the commonly received theory did not explain. Everywhere the modification of the older theory became necessary, and, owing in considerable part to his influence, the doctrines of rent, of diminishing returns, of population, and of economic progress have been generally restated.

The influence of Henry George has been much greater than professional economists are generally willing to admit, although largely an educational rather than a strictly scientific influence. He has done more in America to popularize the science of political economy than any other economist. He has imparted to several of our young economists their first impulse toward the study. His vigorous critical attacks upon the wages-fund doctrine and the Malthusian doctrine of population are the outcome of his study of American economic conditions and in line with the work of Carey and Walker. His influence in this respect is rather in putting within the reach of the masses of Americans exaggerated but not essentially untrue theories. The influence of his propaganda for the nationalization of rent has led to important results in two directions. It has on the one hand led some economists to restate the doctrine of rent so that such dire consequences might not possibly be built upon the rent doctrine, and has generally led to a

new discussion of the whole doctrine of rent, both in Europe and America. On the other hand, it has stimulated immensely the people's perception of the fact that many public franchises were being granted to private corporations without payment into the public treasury of adequate consideration. Not only Mr. George himself, in the recent mayoralty contest in New York, which caused his tragic death, stood upon a platform which asserted the wrong of granting municipal franchises to private companies without recompense, but the leader of conservative reform, Mr. Seth Low, avowed the same doctrine. This now general sentiment in the United States, no longer regarded as a dangerous doctrine, is largely the outcome of Henry George's brilliant argument for the retention in public ownership of public values.

F. A. Walker has exerted a wide influence upon the theory of wages. The fall of the wages-fund theory in England was partly due to his attacks, which so ably followed up the work of Thornton and Long. His positive theory has been not so influential, although it has received partial recognition. The central idea of his theory, that the amount of wages under free competition tends to equal the product due to the labor, has, however, been generally accepted, although not altogether as the direct result of his writing. Walker, besides, has contributed in no small degree to the body of doctrine in English-speaking countries concerning the importance of the undertaker in the productive economy. And in this work he has widened the application of the differential or rent principle in a way in accord with the best modern thought.

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